TAB 216

Transcription of Shorthand Notes of Carol Gordon - AHERF Audit Committee, October 15, 1997

Board Trustees present: J. David Barnes, Ralph W. Brenner, Esq., Anthony M. Cook, Douglas D. Danforth, Richard H. Daniel, Harry R. Edelman III, Ira J. Gumberg, W. P. Snyder III, W. Bruce Thomas.

Other Invitees present: Sherif S. Abdelhak, William F. Buettner, Carol Gordon, Lynn R. Isaacs, Donald Kaye, M. D., David W. McConnell, Leonard L. Ross, Ph. D., Barry H. Roth, Anthony M. Sanzo, Diane K. Schrecengost, Nancy A. Wynstra, Esq.

Transcriptionist's note: Prior to the official opening of the meeting, Mr. Abdelhak said he had some comments to make to the Trustees which were not for the minutes, therefore, the following discussion did not appear in the official minutes of the meeting.

Abdelhak: Update to Trustees about what we are doing. Referred to audited statements, results from operations, significant deficit. Investment income has been helpful Compounding problem in the Delaware Valley starting the last fiscal quarter with fair amount of reduction in revenue from Medicaid. We are trying to estimate what reduction in Medicaid reimbursement is - estimated between $30-60 million, coupled with $2 million from Medicare as a result of the Balanced Budget Act. Results in the last quarter suggested we take aggressive action. When we looked at the numbers in the first two months, they appeared to represent a continuation from the last quarter, so I asked all of our people to effect some cost reductions In the last two days, we have removed $130 million out of our expenses in the Delaware Valley. The bulk of those were personnel adjustments, 1800 jobs. Anticipate that we will need to do further reductions throughout the system because there doesn't appear to be an end to revenue rate reductions. It is my judgment we will need to focus our attention in Pittsburgh in the next month or so. Anticipate taking out another $25-$30 million from the Pittsburgh expenses. All of the fundamental revenue reductions have put an enormous stress on our cash flow. We are working diligently to fix that by fixing the operations, rather than borrow the way through it. At the last Finance Committee meeting, there was a discussion at my request to use some of the internal funds for a sale-leaseback arrangement we were contemplating for the Delaware Valley, and I think that has happened and we have used the funded depreciation at AGH to maintain Accounts Payable at a reasonable level. We are taking a beating in the papers in Philadelphia because of the magnitude of the adjustment and the impact on the economy, but I don't know that we could choose any other course. Anticipate that the University of Pittsburgh will have a similar action taken. Mr. Chairman, we are not about to give you a snapshot of the first three months. The numbers are preliminary, and we are working on the statements. Possibly (?)

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Focused in the Delaware Valley. Two issues we were dealing with last year were the University and AIHG and fixing those. I think we have a fix for the University to have it break even, and I am confident we have a fix for AIHG to reduce the subsidy to half of what it was last year. The bulk of the adjustments we have made were in the hospitals. Some adjustments in corporate services here. No one has complained about the decrease in compensation. Need to improve in the Delaware Valley so that they can repay the advances from funded depreciation. Want to reduce the Accounts Payable to 60 days. I have asked to keep the small vendors paid. Reasons: (1) Medicare effect is roughly $30 million in the Delaware Valley; (2) Medicaid - state has removed $1 billion out of Medicaid payments in the Delaware Valley. State has increased our cost of insurance. Increased CAT fund premium by $20 million. Revenue has disappeared. There has not been a decrease in work, but there is no revenue. HMOs are the reason.

Danforth — I understand the Medicaid and Medicare funds come from federal government to state and the states disburse them.

Abdelhak. — Medicaid is paid through an intermediary and it is usually an insurance company It was usually Blue Cross in Philadelphia. Now it is Blue Cross in Western Pennsylvania. No restrictions on how to use the federal money. Managed care was to be submitted by bids. Balanced Budget Act eliminated this requirement. They are probably spending about ½ as much as last year. Could be as much as $100 million less of reimbursement. We minimized the damage as much as we could.

Daniel — Why is it worse in the Delaware Valley?

Abdelhak — Competition; in Pittsburgh, there is only one Medicaid managed care company, and we own 1/3 of it. In Philadelphia, there are five. .....talked about all insurers in the Delaware Valley being way behind in payments. There is a tremendous backlog. Other measures: no capital acquisitions, no more leasing, have sold a lot of our assets and leased them back, have put an end to that. What is happening in the Delaware Valley will come to Pittsburgh.

Gumberg: — In terms of funded depreciation in AGH, do you think that the reimbursement and the pay back is within a relatively short time?

Abdelhak: — Any monies that are taken are being paid cash to AGH; investment income is not being used.

Sanzo: — Question: Will this current situation have a measurable impact on the Information Services initiative under way in AHERF?

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Abdelhak: No, the responsibility of David, Nancy, Dwight Kasperbauer, Tom Chakurda, and the people in the support areas - the total budget is $120 million. $50 million of that is in IS, and David recommended, and I agreed, that we not touch that. We saved $26 million of the balance. There are a lot of people reporting administrative expenses at 24%. Ours are below 20%.

McConnell: Ours are 12.25% of the total.

Abdelhak: I cannot look at any of my people to say they didn't do something. If anyone didn't do something, it was me for not having a better handle on the extent of the damage in the Delaware Valley. Everyone has been responding as well as I could expect them to.

Barnes: I have spent a lot of time with David and Sherif on this issue in the past couple of months. When it became apparent that the operating plan was way off track because of the revenue shortfalls in Philadelphia, they really got at it. I see this conversation as the opposite of a gloomy conversation. Over the past two years, the quality of our earnings was very poor. We tried to outgrow the issue by building utilization, etc., but it became apparent that we had to take some big bites, so this is good news. Bad news, however, is that although we would like to think that this is the end of the battle, and I am encouraging them to get this behind us by December 31, I am worried that this is not a trend that started in March of 1997 and will end in September, 1997. I believe it is a trend that may go on for several years until enough hospitals get squeezed out of business or the politicians reexamine what they are doing going forward. This is more likely a yearly thing rather than the end of this situation.

Abdelhak: This is true. We are getting you some material to show you on an annual basis of the Balanced Budget Act. I have instructed some of our people to (1) close our clinics, both here and in Philadelphia. This is not reflected in the adjustments. In AGH, the clinics eat up $30 million. No announcements, quietly and quickly. 30/30. We cannot sustain them. How many people were served that way? 500,000.

Dan----: Will affect the people who cannot afford it.

Edelman: Will that over-use the ER?

Abdelhak. State wants surplus in their budget at the expense of the institutions.

Edelman. All medical systems are affected the same way?

Abdelhak Yes, ask Bill.

Buettner: Agree. This is industry wide. It is in the Delaware Valley first, but it will move to Pittsburgh.

Abdelhak: No one on my staff is responsible. The only thing we could have done if we had understood more fully the effect of the mandatory managed care is that we would have taken this action three months ago.

Barnes: For years we have emphasized quality and were not hyper about costs, but now what is happening under the pressure of new legislation is that there are more fights for survival. Need to win the fight for survival. Also, very confident that with these actions we will restore our strength and increase our liquidity and increase our fundamentals as far as our financial position.

Edelman: Why did we have to take the lead on the layoffs and clinics? Shouldn't we try to let someone else take the lead on the clinics?

Abdelhak: Unfortunately, while we act and react quickly and make decisions quickly, there is no evidence that others will do the same, so as I said, for them we will have to bleed. It is a judgment.

Barnes: Number-wise, we have to get at this. Last couple of years have not been as good as they could be. We don't have an option.

Edelman: Both actions will be depicted properly?

Abdelhak I know there is no possible way you could reconcile the gravity of the action. It will take us some time. They have historically been the places where we have let the residents practice. Now the state has published regulations that there must be a physician present and you would go to (....?....) otherwise. It won't give the residents the experience they need.

Transcriptionist's Note: At this point (12:50 p.m.), Mr. Barnes opened the meeting, declared there was a quorum present, the minutes were approved, etc. with no other comment.

Also please note: Other individuals generally spoke more quickly than Mr. Abdelhak during a presentation and it was often not possible to take word-for-word notes. In those cases, I usually made a note of the topic and filled in the detail later from agenda information when transcribing my notes What I have transcribed below in the following sections is what I wrote during the meeting

III. B. Management Discussion and Report on Fiscal Year 1997 Audited Financial Statements and Related Reports for AHERF

McConnell: Have audited financial statements and appropriate debt compliance letters. Will explain our format. (1) It has become clear over the years that as AHERF has grown in size that in the external market we have the legal Obligated Group that have asset pledges or debt pledges but the rating agencies look to the overall organization. (2) Cost; used to provide different sets of audited financial statements each year. Reduced audit fees substantially this year by going to one audit report. As we were completing this issue, Bill Buettner had some concern that the accounting profession considered our past as technically special reports. Special purpose rendered them null and void, so we decided to go to one set of statements. From a preparation standpoint, it seemed better. Reviewed the mergers for Allegheny Valley and Graduate. Audit done quickly and cleanly. We readjusted the balance sheets so we could gain Medicare recapture, and by doing that with the mergers I could not give you a comparative balance sheet. These are in draft form before final opinion. One large outstanding item: with respect to Graduate merger into AHERF, we had certain costs in terms of debt compliance. It is a legal negotiating matter. I expect no problem other than working through the (...?...) in the next couple of weeks. Can not have opinion filed until we receive the waiver.

Buettner. Referred to page 12 of the agenda. As David mentioned, the opinion is not signed. We completed the work on September 4; waiting for the waiver from the trustee and when we receive that, the note will be dated in October. We will issue a clean opinion saying agree with Generally Accepted Accounting Principles and agree with management's conclusion. Footnotes: David mentioned acquisitions. To put acquisitions in perspective, size totaled $670 million of assets and liabilities that are reflected in the financial statements that came in. Because of the purchase accounting methodology that is used, the assets and liabilities come on but the capital stays the same. So when you compare the position of the organization, you are adding liabilities because of the acquisition but not adding capital. Reason makes sense. Recapture is substantial but you have to follow this type of accounting. David mentioned timing of these acquisitions were layered throughout the year so if you look at page 14, income statement, you have the (...?...) companies included but only few months of these (...?...) companies reflected in the financial statements. Under purchase accounting method, you start new when a new entity comes on board. He was going to bring up what he already discussed: investment income $85 million. When you look at your overall net income, that translates into a $60 million loss in operations. Consolidating information in the back will provide with details.

Gumberg: I noticed that on page 2 we have nominal working capital. Are you concerned

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about only $8 million working capital, and I know we are working on paying payables quickly?

McConnell: Obviously, we spend a lot of time managing that on a daily basis. $367 receivables, large number, have always talked about that to this committee in the past. If you look at that number and look at the annualized days and look at the last quarter's revenue (62 days in Accounts Receivable), our goal was to get it under 70. From a process standpoint, because the numbers are so large, we are attempting to negotiate special payment provisions with the payors, that is, Independence Blue Cross is probably one of the slowest payors we have. We told them they owed us $30 million more than we thought they did. So they said send us the claims. 150,000 outstanding claims. Collapsed their system. Trying to get half the money. We are trying to get predictability from cash flow. Computer systems of insurance companies aren't capable of what we are trying to do.

Snyder: They were definitely trying to hold back.

McConnell: ...talked about peculiarities of billing system and reasons for rejecting: name, birth date.

Abdelhak: We are $60 million away from 60 days in Accounts Payable. We anticipate fundamental adjustments totaling $130 million will yield half of this this year. Plus, we need to catch up on a lot of this garbage. Combination is how to repay the funded depreciation and pay the Accounts Payable.

McConnell: I think the downsizing of this week, in terms of cash, really won't materialize until January. So we need to do something in the meantime.

Cook System wide, our days outstanding are in the low 60s and Sherif said we are $60 million away from 60 days.

McConnell: From an Accounts Payable standpoint. From receivables, we are at 58 days.

Cook: Where is the Delaware Valley?

McConnell: AUH consolidated is at 66. St. Christopher's has been a large problem at 96. As of June, put them together. Delaware Valley consolidated is 73, which is as good as it has been in the last four to five years.

Dan----: Asked about when the receivable hits the books.

McConnell. ... gave answer Talked about giving the bill Talked about difference in billing in Pittsburgh vs Delaware Valley, i.e., Blue Cross problems. Blue Cross of

Western Pennsylvania does a better job.

Abdelhak: What are the balances of the AGH funded depreciation on June 30 that was not used for payment of payables? .....little less than $50 million.

Buettner: $58 million.

Abdelhak: $58 million left behind.

McConnell: We have continued to focus on bad debts. We have put a lot of emphasis on working these aggressively. Page 30, bad debt expense was $66.4 million. Have compared to other organizations in industry - compares bad debts to gross revenue and we are at 1.56 compared to gross. The national average is 5.8.

Edelman: Asked where the $112 million shows up. On a consolidation statement, where does the intercompany $112 million show?

Buettner: It will not show on a consolidated statement but it will be on the consolidating schedule; the number in the elimination column which reflects that AHERF has an obligation from one of its sister corporations.

McConnell: We have certain audiences for the financial statements. (1) the Audit Committee, (2) Debt markets, and Bill has agreed that he needs to indicate that some of the money is in intercompany receivables. Resolution approved.

III C <u>Fiscal Year 1997 Report on AHERF Internal Controls</u>

Buettner: Turn to Page 65. There is a short letter in draft form that deals with our report on internal controls. AHERF needs this for filing Medicare Cost Report. No material control weaknesses. Letter is similar to that in the past. Approved.

IV. A. <u>Coopers & Lybrand Management Letter and AHERF Management Response</u>

McConnell: This is the detailed letter that is not required to be reported externally that we ask Coopers &Lybrand to share with the Audit Committee to give us areas of guidance to focus on. All CEOs and I have responsibility in various areas. Letter is here; management has been in agreement with the findings of Coopers & Lybrand. Bill agreed that Coopers is okay with our responsibilities. Questions? Philadelphia?

Cook. Page 70 - in talking about the lease commitments Sherif commented on earlier.

$432 million on the books; additional $100 million in commitments - have they been executed? What percentage of that $100 million falls into the lease commitment for this current fiscal year?

McConnell: $35 million pooled leasing program negotiated with General Electric. That program is in place. Available for our use. Second piece is a $65 million lease program which is the energy plan for the Delaware Valley. Project reduces cost greater than the level of the price of the program. We are working on the lease transaction with the accounting rules. In general, leases do support routine operations.

Edelman: There seems to be certain items that recur - Page 78 - purchasing systems observations. Hard for me to understand why some of these things can't be taken care of.

Buettner: It has been an item for the past couple of years.

Edelman: Seems to me the answer is that we are still trying.

McConnell: Fair observation.

Dan----: Page 74. Revenue in Accounts Receivable - I have a feeling that herein might lie some other areas where cash is not coming in because we can't get the receivables properly managed. And I am not sure the management response is really responsive to the issue.

Abdelhak: We will be taking care of some additional action. The system that has been in place in Pittsburgh has worked very effectively in reducing their Accounts Receivable in a substantial way. We are working diligently to get the same system implemented in the Delaware Valley. Other change is that a couple of years ago I set the registration turned over to the Billing Department., and we will do the same thing in the Delaware Valley - we will turn over the front end to the Billing Department.

Dan----: How soon? Today?

?: ....talked about seeing comments year after year.

McConnell: Going back to where our comments were last year on receivables, problems from the past have substantially improved.

Buettner: Agrees that significant improvements have been made. From our perspective, positive steps have been taken. The registration process of itself - I can't tell you

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if that would reduce your receivables, but clearly if you have a strong registration process it makes everyone's job easier. Principal difference is the quality of the input. Dramatic improvement.

Buettner: System-wide, the best place for improvement is the registration process in the Delaware Valley. Also in the Delaware Valley, the third party payors have been very difficult to deal with.

Abdelhak: Talk about purchasing system. First, there are no unauthorized purchases. They don't get paid. If anyone doesn't go through our purchasing system, they won't be paid. If you notice here the issues are: Are the right people approving the purchase before it is done? Procedural issue. We update our file of signers annually. Some departments didn't update them, hence there is a discrepancy. Procedural issue. Then, if you notice here, the fact that the credits are not handled and being resolved on a timely basis - it has to do with us having basically taken a function in the Purchasing Department because it was easier to do and use prudent judgment in separating responsibilities and have Accounts Payable handle so they don't have the same knowledge, they don't have the same flow of action. Finance has nothing to do with this. We are making a correction next year in the format to show who is the lead person to handle it.

Edelman: Some of these look like fairly garbage items.

McConnell: Yes, some of them are that, and if that is all they are finding, great. If that is the worst that they find in terms of an overall control environment, if this is where we are at, some people have done a good job.

Abdelhak: With all due respect to Mr. Edelman and to David, the one area which is new which is very important is the risk contracting, because there are big bucks involved. We have one million lives rather than 500,000, and that is a lot of money. I would not classify this as garbage.

Edelman: Said some of these items are garbage. Would like to see them gotten rid of in one cycle. Some of them are very important.

Gumberg: Regarding risk contracting - stop loss - is that a mathematical insurance to protect us?

Abdelhak: Yes, and we have excellent rates. Rates were less than we could get from insurer. At the next meeting, let's try to devote some time to risk contracting issue.

Cook: Are we on track with the implementation schedule for the HIMSYS for AHERF?

Abdelhak: We are six months behind because of the Year 2000.

Cook: Does that impact all of the subsets?

Abdelhak: Under the circumstances, with the staffing reductions in the Delaware Valley, one of the applications (inpatient nursing documentation) may be phased in in the Delaware Valley rather than implemented fully at Hahnemann. Principal problem is testing and training. Trying to find streamlined ways to get that done. Have developed computerized module that people can learn from and looking for people for testing to insure system is functional and meets specifications.

Dan----: There was discussion in there about client managed systems. What about the risk if they don't get it done?

Abdelhak: Ask Tony, Don Kaye, and Barry - they are at risk.

IV. B <u>Coopers & Lybrand Required Communication to the Audit Committee</u>

Buettner: If you have any questions; the letter is required to be issued by the firm every year. Eight or nine points we have to communicate to you.

IV C. <u>Report on Fiscal Year 1997 Audited Financial Statements - Canonsburg General Hospital and Subsidiaries</u>

No questions.

IV D <u>Coopers & Lybrand Management Letter and Canonsburg General Hospital Management Response</u>

(Nothing was said.)

IV. E. <u>Review of Audit Services Activities from March, 1997 to Present (Pittsburgh and Delaware Valley)</u>

Schrecengost: Summary of the work of the Audit Services Group. We have summarized individual reports and include Executive Summary. Any specific questions on any items--I will be happy to answer them or could provide copies of the reports.

Barnes Anything of consequence?

Schrecengost: We have been focusing on areas related to Compliance. We are under tremendous pressure from the government with their initiatives related to fraud and abuse. Articles on Columbia/HCA, and I think the work of the Audit Department regarding education and operational activity - we have encouraged people to be proactive in these terms and will not be reactive in terms of any letter that comes in from the government. Have a process for bad billing. We are self-disclosing and paying back things. See those as sensitive areas.

Snyder: How many in your department?

Schrecengost: 24 professionals across the state.

Snyder: You are fully staffed?

Schrecengost: Yes.

Edelman: How do you select risk assessment?

Schrecengost: That is discussed in the March meeting, and I will devote some time to that at the next meeting. Explained ways of risk assessment.

McConnell: Also leave time for the Committee to respond to any questions.

Barnes: Any more questions? Executive Session?

Buettner: No.

Barnes: Board?

No.

Barnes: Management?

Yes.

McConnell: We are recommending Coopers & Lybrand be reappointed as external auditors once again. From a quality and cost standpoint, they have done a good job. They have announced an international merger with Price Waterhouse. Price Waterhouse is out of that business on the East Coast. I do not know the direction the firm will take. Bill does not know who will be leading the office Bill said it is the normal merging work.

Snyder: Diane, have you had the proper cooperation?

Schrecengost: I think we have the optimum audit coverage in terms of Internal Audit's ability to look a little bit deeper. I think we work very well together and I have no difficulty in terms of access. They are very involved in the Internal Audit activities. They rely on us on a control that they use to modify their work.

McConnell: Doesn't mean we always agree with them.

Resolution approved. Meeting adjourned, 1:50 p.m.

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TAB 217

MEETING OF THE RESOURCE MANAGEMENT COMMITTEE
ALLEGHENY GENERAL HOSPITAL
Pittsburgh, Pennsylvania

A meeting of the Resource Management Committee of Allegheny General Hospital was held on Wednesday, October 15, 1997, at 2:00 p.m. in the Snyder Auditorium of Allegheny General Hospital, Pittsburgh, Pennsylvania. The meeting was called pursuant to notice duly given in accordance with the Bylaws to each member of the Committee. A copy of the notice is appended to the original minutes of this meeting. The following individuals were present:

Members Present	Other Invitees	Members Absent
Sherif S. Abdelhak	Barbara Bensaia	William T. Duboc
William F. Adam	Debra L. Caplan	William H. Genge
David E. Barensfeld	Connie Cibrone	Frederick R. Heckler, M. D.
Christopher A. Bonnet, M. D.	John R. England	Robert M. Hernandez
R. Lee Bures	Joel H. Ettinger	Graemer K. Hilton
Richard H. Daniel	Dawn M. Gideon	Joseph C. Maroon, M. D.
Joseph D. Dionisio	Mary C. Goessler, M. D.	Thomas H. O'Brien
Harry R. Edelman, III	Carol Gordon	Randall L. C. Russell, Ph. D.
David P. Fowler, M. D.	Lynn R. Isaacs	Rolf Schapiro, M. D.
Ira J. Gumberg	Dwight Kasperbauer	David W. Sculley
Robert J. Hartsock, M. D.	Caryl M. Kline	Richard White, Ph. D.
Peter D. Kaplan, M. D.	Dana W. Ramish	
Douglas M. Landwehr, M. D.	Andrew Thurman, Esq.	
Stanley M. Marks, M. D.	Cherry S. White	
David W. McConnell	Nancy A. Wynstra, Esq.	
Veronica L. McDonough		
James S. Moore		
Michael W. Moyer		
Francis B. Nimick, Jr.		
Barry H. Roth		
Anthony M. Sanzo		
J. Brandon Snyder		
W. P. Snyder III		
William E. Walker		

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I. Opening of Meeting

The meeting was called to order by Sherif S. Abdelhak, Chairman. Nancy A. Wynstra, Esq. maintained the minutes. Mr. Abdelhak noted that the Committee on Trustees has been working to insure that the organization is streamlined and functioning in the most effective manner. Toward that end, there will be a single Western Region Resource Management Committee; its membership is being considered by the Committee on Trustees and will be announced soon. Other committees will also be reconstituted on a regional basis. In light of the fact that a Chair for the Regional Committee had not yet been appointed, Mr. Abdelhak chaired the meeting. The Chairman declared that a quorum was present and the meeting was competent to proceed.

II. Additions to the Agenda

Mr. Abdelhak noted that there were no additions to the agenda.

III. Review of Cardiovascular Services, AHERF Western Region

Mr. Abdelhak stated that the design of future meetings would be to report on a major clinical service, on a regional basis, at each Joint Conference and Planning Committee, focusing on quality issues, market share, medical developments, etc. At the Resource Management Committee, a review will be held of the same service, discussing all aspects of resources dedicated to that service, such as financial resources, system requirements, Human Resources, facilities, and resources required for an expanded market share.

Barry Roth stated that the purpose of the review of clinical services is to enable the Committee and the Board of Trustees to have an opportunity to develop regional strategies as well as evaluate and enhance the strengths of the organization. Mr. Roth defined the four categories of Cardiovascular Services as follows:

- Heart Transplants: Patients who had heart multitransplant surgery.
- Cardiac Surgery: Patients who had open heart surgery and/or pacemaker insertion;
- Invasive Cardiology: Patients who had cardiac catheterization and/or angioplasty;
- Clinical Cardiology: Patients admitted with a cardiac diagnosis who did not undergo any surgical or invasive procedure.

Mr. Roth provided a market overview and a review of market share. Mr. Sanzo continued the presentation with a discussion of the financial aspects of the Cardiology program, noting that the market is crowded, but Allegheny is a dominant player. Mr. Sanzo further stated that most of the strength of the AGH Cardiology program is outside of Allegheny County, and the greatest challenge is to capture the market in this county. Following a review of benchmark data quantifying the importance of the Cardiology service to the hospitals in the Western Region, Mr. Sanzo stated that moving forward with strategic initiatives is necessary to achieve the stated goals on increased market share while providing comprehensive Cardiology services at the lowest cost in Western Pennsylvania.

IV. Approval Items

A. Governance Issues

1. Approval of Minutes

The minutes from the meeting held on June 6, 1997, were presented. Upon motion duly made and seconded, the Resource Management Committee approved the following resolution:

> **RESOLVED, that the Resource Management Committee of Allegheny General Hospital approves the Minutes from the meeting held on June 6, 1997, as presented.**

B. Finance

1. AGH Financial Statements for the Year Ended June 30, 1997

Sherif Abdelhak opened the discussion by asking the Trustees to turn to Page 5 of the June 30, 1997 Statement of Operations, Assets limited or Restricted as to Use. He noted that the $164,158,000 total in the line item "Unrestricted by Board of Trustees" is today closer to $58 million, in light of the fact that the Finance Committee approved the use of some of those funds to deal with working capital requirements in the Delaware Valley. Mr. Abdelhak further noted that the interest income is being

recorded to AGH on a current basis, with the intent for the principal to be repaid within the next 12-24 months. He further noted on Page 7, that a transfer of other assets from AIHG was reported in the amount of $48,853,000. Mr. Abdelhak stated that tangible and intangible assets were involved, although in many cases the assets were non-compete agreements and goodwill, and returning the assets to AGH strengthens the financial position.

Mr. Dionisio continued the presentation with a brief review of the financial highlights for the Year Ended June 30, 1997. Inpatient revenue produced a substantial positive variance from the amount budgeted due to favorable variances in inpatient cases and revenue per case; outpatient revenue had an increase over budget of 22%. These results, combined with a favorable variance of $4 million in investment income, produced income of approximately $21 million compared to the budgeted amount of $9 million. Due to the January 1, 1997 transfer of ASRI to the University, support which AGH provided to ASRI is now treated as an expense item on the Statement of Operations. Reflecting that change produced net income for the year of nearly $12 million. Following brief discussion regarding the academic costs of the University now appearing as an AGH expense item, it was noted that these expenses related to the Pittsburgh-based University faculty only. Upon motion duly made and seconded, the Resource Management Committee recommended that the Allegheny General Hospital Board of Trustees approve the following resolution:

> **RESOLVED, that the Board of Trustees of Allegheny General Hospital approves the Financial Statements for the Year Ended June 30, 1997, as presented; and instructs the Secretary to append a copy of the approved Statements to the original minutes of the meeting.**

2. Results of Operations and Financial Statements for the Period Ended September 30, 1997

Mr. Abdelhak began the discussion by noting that, after preparation of the budget, an agreement was reached with Blue Cross representing an annualized reduction in revenue from Blue Cross amounting to $5 million, retroactive to July 1, 1997. Mr. Sanzo noted that the highlights

of the income statement showed that AGH was behind plan by $5 million and recorded a loss of $3.5 million. He briefly reviewed admission activity, acuity, and expense variances. Mr. Sanzo further stated that certain physicians who had been employed were working under different provider numbers, thus necessitating recredentialing before proper billing could occur. Mr. McConnell estimated this situation accounted for approximately $4 million in revenue due from Blue Cross. Mr. Abdelhak provided an update on the Federal North project, stating that initial plans were to create a 200,000 sq. foot research facility, thus causing an $11 million carrying cost. He reported that the decision was made not to develop the site for research but to use it for office space, thus eliminating many of the office leases now in existence and reducing the carrying costs of the project. Upon motion duly made and seconded, the Resource Management Committee approved the following resolution:

> **RESOLVED, that the Resource Management Committee of Allegheny General Hospital accepts the Financial Statements for the Period Ended September 30, 1997, as presented; and instructs the Secretary to append a copy of the accepted Statements to the original minutes of the meeting.**

3. Plan of Finance for AGH, AUMC and the Merger of AUMC/Canonsburg into AUMC

David McConnell noted that management is contemplating combining the Western Region credit into one set of documents if better rates can be achieved. A savings of approximately 4% Net Present Value is presently projected. Based on prior approvals, an additional $50 million may be obtained to replenish funds previously spent on capital improvements. Mr. McConnell reported that covenants of existing tax exempt bond financings or refinancings utilized by the Western Region entities as stand-alone entities impose significant limitations on the ability of the organization to streamline the corporate structure. As part of the Western Region plan, AUMC/Canonsburg will be merged into AUMC with AUMC as the surviving corporation, which will accomplish the original intent of the merger of Canonsburg General Hospital into AUMC. Upon motion duly made and seconded, the Resource Management Committee recommended that the Allegheny General Hospital Board of Trustees approve the following resolution:

WHEREAS, entities within the Allegheny Health Education and Research Foundation (AHERF) system located in Allegheny and Washington County ("the Western Region"), Allegheny General Hospital ("AGH"), Allegheny University Medical Centers ("AUMC") and AUMC/Canonsburg (collectively "Corporations") have, at various times, financed projects through the issuance of tax-exempt debt; and

WHEREAS, a review of the existing financings or refinancings in the Western Region indicates that it is appropriate at this time to refund or restructure the existing tax-exempt bonds, and, at the same time, incur certain additional debt for current and future expenditures, and merge AUMC/Canonsburg into AUMC with AUMC as the surviving corporation.

WHEREAS, such refinancing may be done through a variety of mechanisms, including the refunding and/or redemption, or a tender and exchange for the outstanding tax exempt bonds, the exchange of certain tax-exempt bonds from the proceeds of tax exempt bonds, taxable notes of the Corporations and other available moneys of the Corporations as more fully set out in the "Plan of Finance and Summary of Certain Merger Transactions" ("the Plan") which is attached hereto as Exhibit "A" and made a part hereof.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees of Allegheny General Hospital, hereby approves and ratifies the transactions described in the "Plan of Finance and Summary of Certain Merger Transactions: ("the Plan"), as identified on Exhibit "A" attached hereto; and

FURTHER RESOLVED, that, subject to parameters set forth below, the conditions set forth herein, the incurrence of indebtedness by the Corporations, and the expenditure of the Corporations' own funds, for the Financing Purposes related to the Corporations are hereby approved; and

FURTHER RESOLVED, that the transactions related to an Obligated Group under a Master Indenture which are described in the Plan are hereby approved; and

FURTHER RESOLVED, that the issuance and delivery of Obligations by the Corporations and other Members of the Obligated Group for the purposes described in the Plan are hereby approved; and

FURTHER RESOLVED, that the execution, delivery, issuance and approval, as the case may be, by the Corporations of the Financing Documents, the Obligations and the Offering Documents described in the Plan, in such forms and with such provisions (including, if necessary, the funding of a debt service reserve fund, the granting of a security interest in the Corporations' accounts receivables and proceeds thereof, the designation of a Bond Trustee, a Master Trustee, an Insurer and one or more Financial Institutions, and the amount and payment of the discounts and fees of the Underwriters) as shall be approved by the Authorized Officers (as hereinafter defined) executing and delivering the Financing Documents, the Obligations and the Offering Documents to which the Corporations are a party, and all such other documents, certificates and instruments as may be necessary or desirable, in the opinion of the Authorized Officers executing, delivering and/or approving the same, in order to effectuate the execution, delivery, issuance and approval of the Financing Documents, the Obligations and the Offering Documents, are hereby authorized and approved; provided, however, that the conditions set forth in the next succeeding paragraph are satisfied; and

FURTHER RESOLVED, that the aggregate principal amount of indebtedness authorized to be incurred by the Corporations pursuant to this resolution is limited to the amount necessary to accomplish the Financing Purposes related to the Corporations. The average rate of interest on the Fixed Rate Bonds and any Direct Obligations bearing interest at a taxable fixed rate, including the present value effect of any original

issue discount thereon, may not exceed the tax-exempt rates and the taxable rates, respectively, borne by the fixed rate indebtedness of comparable health care credits issued in a comparable principal amount and with comparable maturities as that of such Fixed Rate Bonds and Direct Obligations. The total compensation paid to the Underwriters of the Bonds, may not exceed 2.25% of the aggregate principal amount of the Bonds. The total compensation paid to the Underwriters of the Direct Obligations may not exceed 2.25% of the aggregate principal amount of the Direct Obligations. The fixed rate of interest paid by the Obligated Group under any Swap Agreement or on any master note securing such payments may not exceed the fixed rate of interest paid by comparable health care credits to comparable counterparties under an interest rate exchange agreement comparable to the Swap Agreement, taking into account the notional principal amount thereunder and the termination date thereof. The final maturity of any indebtedness authorized to be incurred by the Corporations and the other Members of the Obligated Group pursuant to this resolution shall not be later than 40 years from the respective dates of issuance of such indebtedness; and

FURTHER RESOLVED, that the Obligations, the Financing Documents and the Offering Documents to which the Corporations are a party may be executed and delivered by the President and Chief Executive Officer, or his designee, Secretary or Assistant Secretary, Treasurer or Assistant Treasurer (the "Authorized Officers"). The execution and delivery of such documents shall constitute evidence of the satisfaction of the conditions described in the preceding paragraph; and

FURTHER RESOLVED, that the merger of AUMC/Canonsburg into Allegheny University Medical Centers (AUMC), the transfer of all of AUMC/Canonsburg's assets and liabilities to AUMC and the assumption by AUMC thereof are hereby approved and ratified; and

FURTHER RESOLVED, that the transaction described in the Summary of Certain Merger Transactions, as identified on Exhibit "A" attached hereto, is hereby approved and ratified; and

FURTHER RESOLVED, that the Authorized Officers are hereby authorized and directed to take such other actions, including, without limitation, the execution and delivery of certificates and other documents, as may be necessary to effect the intent of this resolution; and

FURTHER RESOLVED, that the Secretary is directed to attach to the original minutes of this meeting the "Plan of Finance and Summary of Certain Merger Transactions" as presented at this meeting.

4. Impact of Legislative Changes on AGH

Mr. Abdelhak noted that detailed information on the impact of recent legislative changes was provided.

V. Written Reports Submitted for Information

A. Primary Care Network Report
B. Hospital Network Development
C. AGH Annual Report on Capital Reimbursement Activity
D. Review of Cash Disbursements
E. AGH Human Resources Report

The above reports were presented for information, and there were no questions.

VI. Adjournment

There being no further business, the meeting was adjourned at 4:00 p.m.

Respectfully submitted,

Nancy A. Wynstra

Nancy A. Wynstra, Esq.
Secretary

NAW:cg

NOTED ATTACHMENTS: Notice of Meeting; AGH Financial Statements for the Year Ended June 30, 1997; AGH Results of Operations and Financial Statements for the Period Ended September 30, 1997; Plan of Finance and Summary of Certain Merger Transactions.

TAB 218

In The Matter Of:

AHERF v.
PRICEWATERHOUSECOOPERS, L.L.P.

Ira Gumberg
October 3, 2003

LEGALINK MANHATTAN
420 Lexington Avenue - Suite 2108
New York, NY 10170
PH: 212-557-7400 / FAX: 212-692-9171

Gumberg, Ira - Vol. I

LEGALINK®
A WORDWAVE COMPANY

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IN THE UNITED STATES DISTRICT COURT FOR THE WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF)
UNSECURED CREDITORS OF)
ALLEGHENY HEALTH, EDUCATION &)
RESEARCH FOUNDATION.)
)
Plaintiff,)
)
-vs-) Civil Action
) No. 00-684
PRICEWATERHOUSECOOPERS. L.L.P.)
)
Defendant.)

VIDEOTAPE DEPOSITION OF: IRA GUMBERG
VOLUME II

DATE: October 3, 2003
Friday, 8:58 a.m.

LOCATION: KIRKPATRICK & LOCKHART
Oliver Building, 2nd Floor
535 Smithfield Street
Pittsburgh, PA 15222

TAKEN BY: Defendant

REPORTED BY: Heidi H. Willis, RPR, CRR
Notary Public
AKF Reference No. HW77545

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VIDEOTAPE DEPOSITION OF IRA GUMBERG, VOLUME II, a witness, called by the Defendant for examination, in accordance with the Federal Rules of Civil Procedure, taken by and before Heidi H. Willis, RPR, CRR, a Court Reporter and Notary Public in and for the Commonwealth of Pennsylvania, at the offices of Kirkpatrick & Lockhart, Oliver Building, 535 Smithfield Street, Pittsburgh, PA 15222, on Friday, October 3, 2003, commencing at 8:58 a.m.

APPEARANCES:
FOR THE PLAINTIFF:
James M. Jones, Esq.
JONES DAY
One Mellon Bank Center
31st Floor
Pittsburgh, PA 15219
412-258-2300

FOR THE DEFENDANT:
Roger G. Brooks, Esq.
CRAVATH, SWAINE & MOORE
Worldwide Plaza
825 Eighth Avenue
New York, NY 10019
212-474-1986

FOR THE WITNESS:
David McClenahan, Esq.
KIRKPATRICK & LOCKHART
Oliver Building, Second Floor
535 Smithfield Street
Pittsburgh, PA 15222
412-344-6500

ALSO PRESENT:
Ken Ingersoll, Videographer

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* I N D E X *

* INDEX OF EXHIBITS *
REFERRED TO

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P-R-O-C-E-E-D-I-N-G-S

THE VIDEOGRAPHER: This is day two of the deposition of Ira Gumberg. The witness is already sworn in. We are now going back on the record. The time is 8:58 a.m.

EXAMINATION (CONT'D)

BY MR. BROOKS:

Q. Good morning, Mr. Gumberg.

A. Good morning.

Q. We spent some time yesterday looking at a Coopers & Lybrand management or comment letter I should say, and I want to ask a couple follow-up questions about your experience with Coopers & Lybrand.

Was Bill Buettner or any representative of Coopers & Lybrand invited to AHERF parent board meetings as a general matter?

MR. JONES: Object to foundation and to form.

A. I do not recall Bill at a parent board meeting.

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Q. Was he invited to AGH board meetings?
MR. JONES: Same objection.
A. I do not recall him at an AGH board meeting.
Q. Did he attend AGH resource management committee meetings?
MR. JONES: Same objection.
A. The answer to that as well would be no, to the best of my recollection, except for when I asked for a special Saturday morning session, which I might add was my first time meeting Bill Buettner.
Q. Okay. And --
A. Excuse me, that would have been the second time I met Bill Buettner, the first time being at the -- first time I attended an audit meeting on October the 15th was my first time meeting Bill Buettner.
Q. And the second time was shortly thereafter at this special meeting?
A. I don't remember. I think it was in -- I think in -- correct, it may have been a couple months later.
Q. Okay. Other than that special meeting, did you ever attend any meeting of any AHERF board at which Mr. Buettner was present?

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A. I don't believe so.
Q. And let me correct my question. Other than that special meeting and the audit committee meeting that you referred to, did you ever attend any AHERF board or committee meeting at which Mr. Buettner was present?
A. I do not believe so.
Q. At either of those two meetings you did attend at which Mr. Buettner was present, did you ask Mr. Buettner any questions?
A. At the audit --
Q. Sorry, why don't we hold until he gets that, and we'll read back the question.
MR. McCLENAHAN: Sorry.
MR. BROOKS: Why don't you read back the question, if you would.
- - - -
(The record was read back by the Reporter.)
- - - -
A. I do not believe that I asked Mr. Buettner questions at the October 15th audit meeting, but I cannot say for sure. I think -- I think I may not have.
I did, because I chaired the meeting, the Saturday morning session, so there would

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have been a number of questions I would have -- I would have asked of him.
Q. Okay. Let me hand you minutes of that October 15th, 1997 audit committee meeting which had been be previously marked as Exhibit 2019 in this litigation.
And, Mr. Gumberg, do these appear to be the minutes of the meeting you were referring -- of the audit committee meeting you were referring to?
A. It appears to be.
Q. And this meeting was the first time you met Mr. Buettner in any context?
A. Yes.
Q. If you would turn in this document into page 4, Bates No. ending in 814, and three sentences in at the top of that page you'll see a sentence that reads, quote, Following discussion regarding the outstanding balances in accounts payable and expected adjustments which are intended to be paid to AGH funded depreciation account, and then it continues.
At that audit committee meeting on October 15, 1997, was there a discussion of the fact that large loans had been made from the

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AGH funded depreciation account to the Delaware Valley entities?
A. Yes, sir.
Q. And --
MR. McCLENAHAN: Mr. Gumberg, I think it might be helpful if you at least skimmed the section beginning with B over to page 4 where Mr. Brooks is asking questions so you get --
THE WITNESS: Okay.
MR. McCLENAHAN: -- a sense of the context of the question.
- - - -
(The witness reviewed the Exhibit.)
- - - -
THE WITNESS: Okay. I think you asked a question if there had been discussion about transfers.
BY MR. BROOKS:
Q. And I think you answered that question. I think there's no question pending.
My question now is: When did you personally first become aware that substantial loans may have been made from the funded depreciation accounts of Allegheny General to DVOG entities?

A. A few days -- a day before this meeting, which would have been I believe on the 14th.
Q. Okay.
A. I came in for a pre-meeting, which would have been a standard, a routine with me where any type of a resource management committee meeting that I would be participating in or chairing, that there would be a pre-meeting, and that at two o'clock this same day there was a resource management meeting. So that was the reason for my being there the day earlier was for that preparatory session.
The presenters that would be presenting at that meeting were all in attendance, and then they excused themselves or Tony Sanzo I should say excused everybody except himself and Joe Dionisio, and then Joe Dionisio and Tony advised me that in their opinion there were substantial transfers that had been taking place and that they may not be presented on the balance sheet as -- as transfers due from the east back to the west, but instead I believe were labeled as investments.
I had a -- I then excused Joe

Dionisio and only spoke one-on-one with Tony Sanzo. I told Tony that I wanted to get to the bottom of this immediately, and he said that that was the reason why he came to me, that he thought that I would be the personality, the individual that would deal with this, and I asked him if he would call Sherif and tell Sherif that I'm aware and tell Sherif I'd like to see him.
I received a call back at my office sometime that afternoon asking if I could meet Sherif at 11:30 this same day at Sherif's office at the AGH enterprise.
MR. McCLENAHAN: The same day now meaning the 15th?
A. The next day, the 15th, the audit committee meeting, the 15th, and then I met with Sherif that morning, or at that 11:30 meeting.
Q. And what was the substance of your conversation with Mr. Abdelhak?
A. Substance -- substance of that was that I discussed with Sherif rather directly what I had learned. He at first told me he thought that I was incorrect in terms of the way it was presented in the balance sheet. The meeting

became a little bit heated from his perspective in the sense that he thought I didn't understand and that I was completely off base in terms of the accounting of this.
I told him that I might be, an accountant I'm not, but that I do know as a trustee to me investments to me meant General Motors, 3M, IBM, it didn't mean invested in our own shop, particularly on the other side, meaning the east side of our enterprise, and I thought that most board members would feel the same way.
He then said that he understood, and I recommended to him that I thought the -- that he should come before his board at this twelve o'clock meaning and discuss it.
Q. And that is then what happened at that meeting?
A. And that is then what happened at that meeting.
Q. Let me also put in front of you what's been previously marked, in fact, you probably have it in your stack somewhere, this is the -- Ms. Gordon's shorthand, the transcription of Ms. Gordon's shorthand notes of the October 15, 1997 meeting which is labeled as Exhibit 1659. I'll save time by handing you --

A. Thank you.
Q. -- another copy. I have one more here.
MR. McCLENAHAN: I got it.
Q. And, again, you can decide how much context you want to look at. I'm going to direct your attention to some of the discussion that is approximately recorded towards the top of page 7.
A. I'm just going to ask for your help for page 7.
MR. McCLENAHAN: This is Western Pennsylvania does a better job?
MR. BROOKS: That is the page and then the discussion that follows underneath that.
MR. McCLENAHAN: Well, help us out here. Are you going to be talking about the funded depreciation issue or the issue that precedes it on --
MR. BROOKS: The funded depreciation issue.
MR. McCLENAHAN: Okay. Ira, why don't you start then at the top of page 7 and read down until Roman numeral III C.
- - - -
(The witness reviewed the Exhibit.)

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BY MR. BROOKS:

Q. Okay. My first question is at this meeting was it primarily Mr. Abdelhak or Mr. Buettner who explained to the AHERF audit committee the nature of these loans and how they were accounted for?

A. As I recall, I think Sherif set the -- set the foundation for the discussion, the fact that there had been these loans and transfers, and I recall as well some specifics from Dave McConnell that was also explained.

And the open question in my mind after hearing all dialogue was when will they be paid back, and I recall asking that question, and I believe the answer that was given to me was going to be within 12 to 18 months.

Q. I take it from these notes that Mr. Buettner either spoke or responded to questions in the course of this discussion. Can you describe to me what his role in this discussion was?

A. I can't recall.

Q. Okay. All right. In the course of this meeting, do you believe that the AHERF audit

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committee was accurately advised as to the amount of loans that had been made from AGH, from the AGH funded depreciation accounts?

MR. JONES: Object to foundation and form

A. I'm not sure, reading -- reading the page you asked me to read, I'm not sure I even understand when the -- the balances of AGH funded depreciation June 30 was not used for payments of payables less than 50 million, Buettner responds 58 million left behind.

I don't know how that ties in. I do know that at a later date, I don't recall when, the amount of transfers, as I remember, was larger.

Q. Larger than?

A. Than what was I believe explained at that meeting. I think, as I recall, the number that was transferred turned out to be something in the 90 million-ish range.

Q. Do you recall what the relationship between that and the reference to an intercompany 112 million by Mr. Edelman in these notes was or might be?

A. I don't. I do actually remember Harry asking

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the question where it showed up, and I do remember an answer being given that it was in the elimination column.

Q. And --

A. That's all I can recall.

Q. -- at that meeting was it explained sufficiently to your satisfaction?

A. At the time I would have thought that I understood, and I might add that following that meeting thereafter, the balance sheets reflected differently. They reflected the fact that there had been transfers to the east, and I'm not sure, I think they were maybe footnoted sizably on the balance sheet.

Q. There is a note on this page in Exhibit 1659 by Mr. McConnell's name that reads, quote, Bill has agreed that he needs to indicate that some of the money is in intercompany receivables.

Do you recall any comments from Mr. Buettner to the effect that the accounting for some of these transfers needed to be changed?

A. I do not. I don't wish to editorialize, but Bill Buettner came across to me as a rather meek individual. I don't recall much dialogue.

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Q. There is in this half page we've looked at, there are two comments noted by Mr. Buettner's name. Do you have any recollection that he declined to answer any questions that anybody asked him?

A No, I don't recall a decline.

Q. Do you believe that he was not forthcoming in answering questions that anybody asked him?

MR. JONES: Object to foundation.

A. I also could not say that he was not forthcoming.

Q. About the time of the October 15 AHERF audit committee meeting, did anybody bring this same issue to the attention of the AGH board?

A. Well, the --

MR. JONES: Object to foundation.

A. -- yes, because at the two o'clock meeting Sherif spoke again and addressed a huge auditorium, because it was the consolidated -- yes, it was the -- it was a consolidation of resource management committees across the whole global system that had been invited in to the auditorium, not because of the subject, but whatever the agenda was that they were -- we were discussing.

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And he took the first 10 or so minutes of that meeting and spoke, and I might add I recall him speaking rather articulately about the subject, and board members were there, physician members who were members of committees were there, and it would have been the first time that physician members would have heard this, and there was a great deal of surprise.
Q. And at that large meeting Mr. Abdelhak laid out the nature and size of these transfers clearly?
A. He did.
Q. Was it your judgment at the time that anything about how these transfers had been done was improper on the part of management?
MR. JONES: Object to form.
MR. McCLENAHAN: How they had been done or -- is that your question?
MR. BROOKS: Let me reask it.
Q. Was your judgment at the time that management had acted improperly in making these loans from the funded depreciation to the DVOG entities?
MR. JONES: Same objection.
A. Is my attorney -- am I okay to answer?
MR. McCLENAHAN: Yes.

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A. I don't believe that I would have viewed -- that I viewed them as improper. I think the only part that was of concern to me was the labeling on the balance sheet and the fact that I learned about it kind of last minute, and as you know, I learned about it through a prep session.
Q. Did the fact that you only learned about it at the last minute raise concerns in your mind about whether you could trust top management?
A. That's a -- that's a fair question. My judgment at the time was that I watched Sherif come before his board, respond appropriately. If he had not at the time, I would have had great concern, but I thought he had cleared himself appropriately, and I felt that maybe all I was able to do in the process as being one of his board members was just help him do the right thing by his institution.
Q. Did the fact of these transfers and the way that you learned about them and the way they had been recorded on the book cause you to consider whether top management of AHERF should be changed?
A. It did not reach that level in my mind at that

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time.
Q. What action, if any, did the AHERF audit committee take in connection with this issue once it was informed about it at the October 15 meeting?
A. Roger, I don't recall exactly the action taken, but there was more proactive action taken at a meeting of the AHERF finance committee a few weeks later.
MR. BROOKS: Let me mark as Exhibit 2051 a one-page document bearing the Bates No. HE 1373 titled Report From the Special Task Force Reviewing Intercompany Loans.
\- - - -
(Exhibit 2051 marked for identification.)
\- - - -
BY MR. BROOKS:
Q. And let me ask you first, Mr. Gumberg, if you recognize this document.
\- - - -
(The witness reviewed the Exhibit.)
\- - - -
A. I believe I -- I believe I did.
Q. Did you write this report?
A. I don't recall.

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Q. This report appears to refer to a meeting of a special task force of resource management committee on April 18, 1998, of which you were chair.
Can you describe for me what that special committee -- special task force was and how it came into existence?
A. Yes, be happy to, but I need to take you back a little bit.
Q. Okay.
A. Two weeks after the audit meeting, which I believe was October 15th, there was a finance meeting of the AHERF -- AHERF finance board.
MR. McCLENAHAN: Committee.
A. Committee, thank you. And there at that meeting I believe that was when a resolution was being asked to be approved that would have -- that would have approved an intercompany transfer as high as $150 million.
And having heard this at the meeting, I thought it was appropriate that I speak out, and I did, and I -- I'm trying to go back in life now, but I believe that I spoke about the fact that in that two-week period that I had felt a we/they issue had developed between our

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Q. Did you find him -- the information that
Mr. Buettner gave at that meeting to be
accurate?
A. I believe so, yes.
Q. And have you ever learned anything to the
contrary?
A. I have not.
Q. Did you find him willing to answer whatever
questions the committee members had?
A. Yes.
Q. The last paragraph of this report begins,
quote, The task force was generally satisfied
with the explanations, but nonetheless agreed
to continue to monitor these transactions in
the future, and it continues.
Is that an accurate summary of your
own state of mind after this meeting on April
18th?
A. Yes, and subsequently I reported this to both
my committee and I believe to the board.
MR. JONES: I'm sorry, which board?
THE WITNESS: That would have been
the west board, Jim.
MR. JONES: Thank you.
Q. And you described earlier the we/they mind-set

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that you observed on the part of some of the
doctors. Was it your view that significant
intercompany loans were consistent with the
integrated system strategy that AHERF was
pursuing?
MR. JONES: Object to form.
A. I think the answer to that question is yes to a
certain point.
Q. Did you ever come to a particular conclusion
about what that point was?
A. I think that I did.
Q. And what was your conclusion?
A. That if we were going to exceed this $150
million range, that we needed to circumscribe
funds and stop allowing any future transfers,
and, in fact, I spoke up. I had our resource
management committee authorize a resolution to
do just that, and then I took it to the board
of directors, and I asked the board of
directors to do the same, which it also was
moved by me and I believe seconded by Sherif.
Again, the board being the western board.
Q. The AGH board?
A. Yes.
Q. So I'm clear on the chronology, at the October

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15th AHERF audit committee meeting,
Mr. Abdelhak and Mr. Buettner explained to the
committee intercompany --
A. And the financial officer.
Q. Mr. McConnell?
A. Right.
Q. -- explained to the committee the intercompany
transfers that had happened during fiscal 1987;
correct?
MR. JONES: '97.
A. I'd like to -- I'd like to just maybe cast that
a little differently.
Q. Okay.
A. I believe Sherif presented it. I believe
McConnell added to the presentation, and I
believe, as I recall at least, that Buettner
answered questions.
Q. The focus of that discussion and explanation
was on transfers that had happened during
fiscal 1997; correct?
A. Transfers that had happened.
Q. That had happened, and then following that, the
AHERF board approved up to an additional $150
million worth of --
A. No, inclusive of. 150 I believe was -- the

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difference of whatever it was and 150, it was
not to go over 150.
Q. So it was functionally something like a credit
line that was not to exceed --
A. Correct, intercompany credit loan of 150.
Q. Okay.
MR. JONES: In total.
THE WITNESS: In total.
Q. Mr. Gumberg, how did you learn of the decision
that AHERF would acquire The Graduate
Hospitals?
A. I attended a meeting in December of '96. I
believe that was when I concede that I was on
the AHERF board. They presented as part of an
agenda the fact that they had already an
agreement -- I can't remember if it was they
had acquired or if they had an agreement to
acquire The Graduate Hospital system, and I
remember some initials. It wasn't called
Graduate, it was an entity called SD something.
Q. SDN?
A. Okay, SDN, and that was my first -- my first
knowledge.
Q. Well, let me ask you this: Back in August this
acquisition had been discussed in news articles

TAB 219

IN THE UNITED STATES DISTRICT COURT FOR THE
WESTERN DISTRICT OF PENNSYLVANIA

THE OFFICIAL COMMITTEE OF UNSECURED
CREDITORS OF ALLEGHENY HEALTH,
EDUCATION & RESEARCH FOUNDATION,
Plaintiff,

vs. No. 00-684

PRICEWATERHOUSECOOPERS, L.L.P.,
Defendant.

VIDEOTAPED DEPOSITION OF RICHARD H. DANIEL
Taken on behalf of the Defendant
October 10, 2003

- - -

BE IT REMEMBERED THAT, pursuant to the Federal Rules of Civil Procedure, the deposition of RICHARD H. DANIEL was taken before Tim Bellisario, a Certified Court Reporter and a Notary Public for the State of Washington, on October 10, 2003, commencing at the hour of 9:13 a.m., the proceedings being reported at 601 Union Street, Suite 1624, Seattle, Washington.

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A. I see it.
Q. It says: "Sherif Abdelhak opened the discussion by asking the Trustees to turn to page 5 of the June 30th, 1997 statement of operations Assets limited . . . to use. He noted that $164,158,000 total in the line item unrestricted by Board of Trustees is today closer to $58 million in light of the fact that the finance committee approved the use of some of those funds to deal with working capital requirements in the Delaware Valley."
Did I read that correctly?
A. Yes, you did.
Q. Do you recall Mr. Abdelhak informing the Board that in fact the assets -- the assets unrestricted by the Board of Trustees was in fact closer to $58 million, even though the line item reflected a little bit in excess of $164 million?
A. I wouldn't know. I wasn't at the Board meeting.
Q. Well, okay. I believe it says you were a member present at this meeting?
A. This was a committee, not the Board.
MR. UNICE: You asked him Board of Trustees, I think.
MR. LUFT: Okay. Let me ask this: Do you recall Mr. Abdelhak stating at this meeting of the AGH resource management committee --

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THE WITNESS: Making that statement?
MR. LUFT: Yes.
THE WITNESS: No.
Q. No, you don't recall?
A. I now do, as he said.
Q. You now see that its here. My question is: Do you now recall or do you still have no recollection of whether he said it or not?
A. I see it here.
Q. But you don't recall whether he said it?
A. (Witness nods head from side to side.)
Q. Okay. I just want to keep the record clean.
A. Good. So do I.
Q. I'm going to ask you to keep that page --
A. I'm aware that it happened, yes.
Q. You're aware that what happened?
A. That the money was used for the purpose stated.
Q. Were you aware at that time, October 15th, 199 --
A. Apparently, I was made aware of it on October 15th.
Q. And in fact, if I can ask you to keep that document open and also turn to look at Exhibit 1659.
A. (The Witness complied.)
Q. Which is the Carol Gordon notes of the October 15th, 1997 audit committee meeting of AHERF.

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A. Got it. What page?
Q. The page ending 3453.
A. Okay.
Q. I'm going to have you look at that. Let me first also ask you to find, so we can look at them all together, Exhibit 2019, which is the October 15th, '97 audit committee minutes.
A. Yep. What page?
Q. 55814. Well, first look at now -- because you said you knew of it, and I just want to show you some various places, at 55814 -- the top paragraph on that page, there's a line that says: "Following discussion regarding the outstanding balances and accounts payable" --
Do you see where I am?
A. Uh-hum (affirmative).
Q. -- "an expected adjustments which are intended to pay the AGH funded depreciation amount."
MR. UNICE: Objection, it doesn't say that. Avi.
MR. LUFT: Excuse me. you are correct. It says "which are intended to repay the AGM funded depreciation account." Thank you, John.
So we'll just have that there. And then, if we can turn to Exhibit 1659, which is the notes, which are the Carol Gordon transcription notes from that

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same meeting.
If we look under Abdelhak's statement on the top of the page, "What are the balances of the AGH funded depreciation on June 30th that was not used for payment of payables . . . not less than $50 million; Buettner, $58 million; Abdelhak $58 million left behind." And then McConnell states: "We have continued to focus on bad debts We have put a lot of emphasis on working these aggressively. Page 30, Bad Debt Expense was $66.4 million. Have compared to other organizations in industry; compares bad debt to gross revenue, and we are at 1.56 compared to gross; the national average is 5.8."
Then, Mr. Edelman comes back to this topic and says, asks where the $112 million shows up on a consolidation statement. where did the intercompany $112 million show. Mr. Buettner states: "It will not show on consolidated statement. but it will be on the consolidating schedule. The number of the in the elimination column, which reflects that AHERF has an obligation from one of its sister corporations."
Now, having seen the statements in the minutes and in the transcription -- Carol Gordon's transcription of the October 15th. 1997 audit committee meeting -- does this refresh your recollection about whether the knowledge you had about the movement of the intercompany

funds came from your attendance at the AHERF audit committee meeting?
A. Probably
Q. So you don't recall specifically, but you definitely recall that you were aware of the use of AGH-funded depreciations to pay for --
A. I think this is the first time I heard about it.
Q. Do you believe you would have heard about it in the context of being a member of either the AGH resource management committee or the AHERF audit committee?
A. Not necessarily.
Q. In what other context could you have envisioned learning of this, Mr. Daniel?
A. Only if someone else told me. I don't know how I would have none. Sooner or later it was going to come out. I mean, it was too important a transaction to lie there and not have somebody be made aware of it. This was being made aware of.
Q. Do you have any reason to believe that this information was only imparted to you to the exclusion of any other members of the AHERF audit committee, the AHERF parent board or the AGH resource management committee?
MR. UNICE: Objection, lack of foundation.
A. No

Q. So it's your understanding that the other members of the audit committee and the AGM resource management committee were aware of this transfer as well?
A. Yes.
MR. UNICE: Do you mean is that what the minutes say, was that your question, Avi?
MR. LUFT: I think he answered my question.
THE WITNESS: If I knew it, they knew it.
Q. Did you ever have any personal conversations with Mr. Abdelhak?
A. Yes.
Q. About how many times do you believe you just spoke to Mr. Abdelhak, just the two of you?
A. Two or three times.
Q. Were those before the acquisition of Forbes or after the acquisition of Forbes, or a combination?
A. I don't remember.
Q. Do you recall if you had a view of Mr. Abdelhak's capabilities as a CEO when you were a member of the AHERF audit committee?
A. I was developing one, yes.
Q. And what view were you developing of Mr. Abdelhak?
A. That he was a very controlling CEO

Q. Do you recall if that manifested itself in how he acted?
A. Yes.
Q. How so?
A. He dominated virtually every meeting he was at.
Q. Including the audit committee meetings you attended?
A. Yes.
Q. Do you recall if Mr. Abdelhak was responsive to other people's ideas?
A. I would have no way of knowing.
Q. Do you recall ever being in a situation where people raised suggestions other than what Mr. Abdelhak was advocating?
A. No.
Q. Do you recall ever hearing any members of the Board of Trustees or one of the committees of the Board of Trustees ever criticize Mr. Abdelhak in public?
THE WITNESS: In public?
MR. LUFT: Yes.
A. No.
Q. Do you recall ever hearing one of the members of the audit committee or a member of the Board of Trustees ever raising questions in public about how Mr. Abdelhak was handling a matter relevant to AHERF?

A. No.
Q. Do you recall if you ever found that odd, that no one was ever raising any questions about any of the decisions that Mr. Abdelhak was making?
MR. UNICE: Objection, mischaracterized his prior testimony.
A. I didn't find it odd.
Q. Why not?
A. He wouldn't allow it.
Q. What do you mean, "he wouldn't allow it"?
A. People would not do it in public. You said "public" in each one of these questions.
Q. Yes.
A. And people working for Mr. Abdelhak, I figured out, would not criticize him in public.
Q. When you say people working for him, you're referring to AHERF management?
A. Yes.
Q. They wouldn't question him in public?
A. Yes.
Q. How about members of the audit committee, would they be willing to question Mr. Abdelhak in public?
MR. UNICE: Objection, lack of foundation.
THE WITNESS: In public?

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MR. LUFT: Yes.
A. Not to my knowledge.
Q. Do you know of any reason why independent members of the audit committee wouldn't want to -- would feel that they couldn't question Mr. Abdelhak in public?
A. It's not the role of a committee member.
Q. You don't believe it to be the role of a committee member if they have a different opinion than the CEO, to question the CEO?
A. They do it in the context of the corporation, not in public.
Q. And by "public," I mean public meetings.
A. So do I.
Q. So it is your opinion that it is not the role of a member of a committee of a board to raise disagreements they have with the CEO at meetings of that committee?
A. Oh. I've been referring to AHERF. The answer to that question is yes.
Q. Okay. So in general you believe it's the role, but at AHERF, there wasn't the role of the committee members.
A. That's correct.
Q. Now, in your opinion --
A. From what I saw.
Q. Obviously. I'm only asking about your opinion and

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your understanding.
A. Okay.
Q. And from your perspective, what accounted for that difference between what you would expect to be right at other corporations, and what in fact was happening at AHERF?
A. A term I used before. Abdelhak was a dominant CEO, to the extreme.
Q. So he was dominating the Board?
MR. UNICE: Objection, lack of foundation.
A. He was dominating every meeting that I was involved in.
Q. Do you recall ever talking to any other members of the AHERF Board of Trustees or the AHERF audit committee about Mr. Abdelhak's dominating personality and domination of meetings he attended?
A. Yes.
Q. Who did you speak to about this?
A. Ira.
Q. That would be Ira Gumberg?
A. That would be.
Q. Do you recall what Mr. Gumberg said in response?
A. Yes.
Q. What did Mr Gumberg say?
A. He shared my concern.

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Q. He also feared that Mr. Abdelhak was dominating the meetings he attended?
A. That's correct.
Q. Do you know if Mr. Gumberg indicated to you that he had ever spoken to anyone else about his concern about Mr. Abdelhak's domination?
A. I don't recall that he did.
Q. Do you recall if Mr. Gumberg ever took any action in response to his belief that Mr. Abdelhak was dominating the meeting that he was in attendance at?
A. No.
Q. Did you ever take any action in response to Mr. Abdelhak's domination of meetings?
A. No.
Q. Was that partially because you were off the audit committee before you had ever had an opportunity to take any action?
MR. UNICE: Object to form.
THE WITNESS: Well, you're asking the question now at a time in which I'm no longer affiliated with AHERF.
MR. LUFT: What I'm asking is: Do you believe that if you had not been excused from your duties on the audit committee so quickly, you may have chosen to take action in the future against this problem that you

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perceived?
MR. UNICE: Object to form.
A. I don't know. Probable, but I wouldn't know, because that time hadn't come.
Q. Do you believe that your removal from the AHERF audit committee was in fact partially motivated by a concern that you felt that there was a problem with Mr. Abdelhak's domination of the meetings he was in attendance at?
MR. UNICE: Object to form; lack of foundation.
A. That's not the conclusion I came to.
Q. The conclusion you came to was that you were asking too many questions?
A. That's correct.
Q. At the audit committee meetings at which you were in attendance, would you say they were characterized by more or less discussion amongst the committee members than there was at the finance committee at Forbes?
MR. UNICE: Objection, vague.
THE WITNESS: I don't know what the real question is.
MR. LUFT: Well, then, let me ask it again.
THE WITNESS: Change it so that I can understand it.

TAB 220

Page: 1
Date: 04/27/98
Time: 5:51:29 PM

AHERF
Mellon Bank
Wire Transfer - Current Day Outgoing Wire Report

Transfer Payment Amount	Mellon Reference Number	RRN	Wire Network	Network Reference Number	Time Processed	Value Date	Init ID	Auth ID

BANK: Mellon Pittsburgh BANK # 100 BRANCH: PG

ACCOUNT #: 937768

DRAWDOWN

Transfer Payment Amount	Mellon Reference Number	RRN	Wire Network	Network Reference Number	Time Processed	Value Date	Init ID	Auth ID
$6,000,000.00	4812	201	Drawdown	775	10:28	04/27/98	VCM	

RCV=043000096PNCBANK PITT*FNC=DRCBNF=D0937768*ALLEG HEALTH EDUC & RES FD*DB T=D10694245*ALLEGHENY HEALTH EDUC & RESEARCH FD*ORG=D937768*ALLEGHENY HEALT H EDUCATION &*RESEARCH FOUNDATION*320 E NORTH AVE*PITTSBURGH PA 15212-4756* CDT=043000261BBI=REF CONCEN OF FUNDS*

Total Wire Drawdowns for Account 937768: $6,000,000.00
Total Drawdown Payments for Account 937768: 1

DEBITS

Transfer Payment Amount	Mellon Reference Number	RRN	Wire Network	Network Reference Number	Time Processed	Value Date	Init ID	Auth ID
$3,500,000.00	4808	551	Fed Wire	774	10:28	04/27/98	VCM	

RCV=031000053PNCBANK PHIL*FNC=CTRBNF=D8529992181*MUTUAL FUNDS GROUP*ORG=D93 7768*ALLEGHENY HEALTH EDUCATION &*RESEARCH FOUNDATION*320 E NORTH AVE*PITTS BURGH PA 15212-4756*OBI=TEMP FUND, ACCOUNT NO. 19999,*ALLEGHENY HEALTH. EDU CATION AND*RESEARCH FOUNDATION*

Transfer Payment Amount	Mellon Reference Number	RRN	Wire Network	Network Reference Number	Time Processed	Value Date	Init ID	Auth ID
$42,412.65	4813	353	Fed Wire	776	10:28	04/27/98	VCM	

RCV=043000096PNCBANK PITT*FNC=CTRBNF=D2443526*TRANS GENERAL SERVICES CO., I NC*ORG=D937768*ALLEGHENY HEALTH EDUCATION &*RESEARCH FOUNDATION*320 E NORTH AVE*PITTSBURGH PA 15212-4756*BNA=PHNDIANE STONER, (412) 762 24*23*

Transfer Payment Amount	Mellon Reference Number	RRN	Wire Network	Network Reference Number	Time Processed	Value Date	Init ID	Auth ID
$89,457,722.18	24555	535	Book Trnf	0	17:48	04/27/98	VCM	

RCV=043000261MELLON PIT/*FNC=CTRBNF=D000009908 73800*LOANS MELLON BANK 7380 *ORG=D937768*ALLEGHENY HEALTH EDUCATION &*RESEARCH FOUNDATION*320 E NORTH A VE*PITTSBURGH PA 15212-4756*OBI=REF: AHERF, ATTENTION: LOAN ADMIN*ISTRATI ON*

Total Wire Debits for Account 937768: $93,000,134.83
Total Debit Payments for Account 937768: 3

0083447

MM2945 Page 2 of 3

ALLEGHENY HEALTH, EDUCATION AND RESEARCH FOUNDATION
REQUEST FOR ELECTRONIC FUNDS TRANSFER

Pay From:

003448

Bank Name, City & State: Mellon Bank, Pittsburgh, PA
ABA Routing No.: 043000261
Account Number: 093-7768
Account Title: AHERF Concentration

Amount $ 89,457,722.18
Repetitive EFT No. 535
Due Date 04/27/98

Pay to:

Bank Name, City & State: Mellon Bank, Pittsburgh, PA
ABA Routing No.: 043000261
Account Number: 990873800
Account Title: Credit Loan Administration
Reference (Optional): AHERF Line of Credit

Description

Payoff of Line of Credit Principal, Interest and Fees

Company No.	G/L Acct No.	Cost Center	Subledger	Amount
			Total	

Requested by
Date

Approved by
Date

For Treasury Use Only

EFT Initiated by [signature] Date 4-27-98
Approved by Date

Authorization For Repetitive

Officer's Signature Date

MM2945 Page 3 of 3

TAB 221

APR-22-98 WED 18:38 AHERF FINANCE ADMIN FAX NO. 4123593085 P.02

AHERF
Allegheny Health, Education and Research Foundation

*Fifth Avenue Place, Suite 2900
120 Fifth Avenue
Pittsburgh, Pennsylvania 15222-3009*

MEMORANDUM

TO: David W. McConnell

FROM: Sherif S. Abdelhak S Abdelhak 4/22/98

DATE: April 22, 1998

RE: Repayment to Mellon Bank

Pursuant to the demands placed upon the organization by Mellon Bank on behalf of itself and the consortium of banks with respect to the current $90,000,000 debt obligation, I am directing you to take the following steps: liquidate sufficient funds from the AUMC Funded Depreciation account and other AHERF Unrestricted Funds as necessary to provide sufficient liquidity to pay the loan in full as of this Friday, April 24, 1998.

You are to take this action if you are unable to negotiate another appropriate alternative or extension of time for such repayment with Mellon Bank to your satisfaction. Any funds taken from non-AHERF accounts are to be swapped with AHERF endowments or other funds as you deem appropriate so that the total investments on the subsidiary's books are not materially affected in amount, recognizing that there may be some adjustment necessary within categories to accomplish this task.

If any Board approval or other items are subsequently deemed necessary, we will deal with them in the next round of regularly scheduled board meetings, as appropriate; however, given the timeframe placed upon us, you are authorized to proceed prior to that approval.

If you have any questions, do not hesitate to call.

AHERF LIT
USDC W.D. Pa
MISC No. 00-40
12797
EXHIBIT NO.

SSA:cg

04222

Copy Al Adamczak
Mike Martin } Personal and Confidential

DEPOSITION EXHIBIT
1930
AKF 8/20/03

DBR-RJH-00148

TAB 222

2

MEETING OF THE RESOURCE MANAGEMENT COMMITTEE
ALLEGHENY GENERAL HOSPITAL
ALLEGHENY UNIVERSITY MEDICAL CENTERS
ALLEGHENY UNIVERSITY MEDICAL CENTERS/CANONSBURG
Pittsburgh, Pennsylvania

A meeting of the Resource Management Committee of Allegheny General Hospital, Allegheny University Medical Centers and Allegheny University Medical Centers/Canonsburg was held on Tuesday, February 10, 1998, in the Board Room of Allegheny University Hospitals, Allegheny General. The meeting was called pursuant to notice duly given in accordance with the Bylaws to each member of the Committee. A copy of the notice is appended to the original minutes of this meeting. The following individuals were present:

Members Present	**Other Invitees**	**Members Absent**
William F. Adam	Barbara Bensaia	Robert M. Hernandez, Vice Chair
David E. Barensfeld	Debra Caplan	Veronica L. McDonough
William Burt	Connie Cibrone	Michael Miller, M.D.
Jeffrey Cohen, M.D.	Joseph Dionisio	Lyle L. Shumaker
Steve Elliott	John England	
Robert L. Fletcher	Joel Ettinger	
David Fowler, M.D.	Dawn Gideon	
Ira J. Gumberg, Chair	Lynn Isaacs	
Daniel Heilman, M.D.	Dwight Kasperbauer	
Shalom Kalnicki, M.D.	Christine Mamone	
Charles LaBelle	Michael Moyer	
David W. McConnell	Dana Ramish	
James S. Moore	Barry Roth	
Randall L. C. Russell, M.D.	Joseph Sanfilippo, M.D.	
Anthony M. Sanzo	Andrew Thurman, Esq.	
Richard P. Shannon, M.D.	Cherry S. White	
William E. Walker		

I. Opening of the Meeting

The meeting was called to order at 9:00 a.m. by Ira J. Gumberg, Chairman. Andrew Thurman, Esq., kept the minutes.

II. Additions to Agenda

Mr. Gumberg noted that there were no additions to the agenda.

III. Approval Items

A. Governance Issues

1. Approval of Minutes

The minutes from the Allegheny General Hospital, Allegheny University Medical Centers and Allegheny University Medical Centers/Canonsburg Resource Management Committee meeting which was held on October 15, 1997, were presented.

Upon motion duly made and seconded, the Resource Management Committee approved the following resolution:

RESOLVED, that the Resource Management Committee approves the Minutes from the Allegheny General Hospital, Allegheny University Medical Centers and Allegheny University Medical Centers/Canonsburg Resource Management Committee meeting held on October 15, 1997, as presented.

B. Finance

1. AUH-West Financial Statements for the Period Ended December 31, 1997

Mr. Anthony Sanzo reviewed the Financial Statements for the Period Ended December 31, 1997. Operating performance and cash flow fell short of expectations for Allegheny University Hospitals-Western Region (AUH-West). While most of the pressure rests within Allegheny General Hospital (AGH), Allegheny University Medical Centers' Forbes Regional, experienced volume and revenue declines. Revenue from patient services approximated budget at $352 million, however, volume and rates fluctuated throughout the region. The unanticipated revenue reductions in fiscal year 1998 relate primarily to the new Blue Cross contract (retroactive July 1, 1997), the Medicare Balanced Budget Act of 1997 (effective October 1, 1997) and reductions in rates of reimbursement for managed care patients and an escalating shift from indemnity cases to managed care. While AGH admissions exceeded plan by 330 cases, AUMC admissions fell short by 646. More importantly, rates of payment fell below budgeted levels in all organizations, most notably at AGH.

Since 1989, Allegheny General has experienced a 31% decline in average payment per case. Since 1994, the average payment per case declined 16½% which represents approximately $40 million annually. The above and other factors clearly point to the need for accelerated, increased emphasis on cost reduction initiatives -- 1.) an immediate reduction of $20 million, and 2.) an $80 million reduction over the next 30 month period. Mr. Barry Roth and

Ms. Connie Cibrone were then called upon to discuss specific initiatives at the respective institutions

Allegheny University Medical Centers Update

Mr. Roth opened his presentation by stating that for the first six months of FY'98 Allegheny University Medical Centers (AUMC) experienced net income of $13.6 million which was $4.1 million ahead of budget. This favorable variance was generated by investment earnings and the accrual of benefits from depreciation recapture. Net patient revenue was impacted by a 4% shortfall in inpatient admissions across AUMC facilities, especially at Forbes Regional.

AUMC experienced negative cash flow for the first six months, as cash from the Medicare recapture has not yet been received.

Mr. Roth continued his discussion presenting an action plan intended to decrease expenses and enhance revenues. This plan targets review and reduction of administrative and non-clinical services, and actions currently underway to deal directly with volume declines and additional inpatient admissions. In addition, a very select group of primary care physicians, employed by one of our competitors, is being recruited to provide increased services in our region. Penn Group Medical Associates are also being persuaded to provide increased services in our region. Outpatient programs are being implemented to enhance volume and positive outcomes are expected as a result of several ambulatory sites opening.

Considerable discussion ensued regarding the less-than-expected inpatient volumes, the rationale as to why physicians may be referring outside the Allegheny network and the $8.2 million subsidy anticipated to support Allegheny University Medical Practices (AUMP). It was suggested that value and efficiency of each AUMP practice be reviewed.

Mr. David McConnell explained the process of securing practice offices and the goal of redefining our network. AUMP is currently in the process of attempting to reshape current contracts. Approximately 20% of private practice offices should not have been acquired due to their geographical inability to serve AUH-West facilities. In addition, we have about 85 physicians who are experiencing problems getting credentialed with Highmark. We anticipate the credentialing process to be complete by April 1, 1998. Committee members requested that Mr. McConnell address and stay close to the financial situation and in the future, provide an outline of supporting key elements.

Allegheny General Hospital Update

Ms. Cibrone provided a status report relative to expense reductions at AGH. AUH-West has engaged McKinsey and Company to assist with improving the productivity of the non-patient care workforce by a reduction in costs of $40 million over the next two years. This reduction will encompass non-patient care labor to include the entire workforce less bedside nurses. The outcome of the study is to eliminate non-value added activities, and to identify more efficient and effective ways to conduct necessary activities. Concurrent with this study, we have asked McKinsey to assess the three remaining drivers of costs: resource utilization, purchasing management, and capacity configuration. This assessment will enable us to determine, with some degree of certainty, the magnitude of future savings opportunities.

Ms. Cibrone continued her presentation reporting on revenue enhancement. She stated that AGH's operating rooms are at capacity. As a result, AGH clinicians are forced to take patients to competing organizations for care. To alleviate this situation, AGH is converting its MRT suite to an O/R which will be ready for occupancy within the next six weeks. Other options to expand O/R capacity are under investigation to include the construction of two outpatient O/Rs, the use of modular O/Rs and possible expansion of elective O/R time on the weekends.

Mr. Joseph Dionisio highlighted components of Management's Analysis and Discussion of the Financial Statements for the six months ended December 31, 1997. During the first half of fiscal year 1998, AUH-West reported net income of $6 million which was approximately $6 million less than budget. Although total revenues, gains and other support exceeded expectations by $9 million, mostly attributable to outpatient revenue, total expenses exceeded budget by nearly $15 million, thus resulting in the less-than-expected net income for the period. Volume exceeded budget at AGH-AG by approximately 300 cases, but AUMC experienced a nearly 600 case negative volume variance. Net revenue per case declined by nearly $160 during the period, primarily the result of new contractual arrangements previously discussed. Outpatient revenue exceeded budget by $7 million. Investment income of $23 million was nearly $11 million greater than budget, primarily the result of favorable market trends and trading gains. Expenses were $375 million or $15 million greater than budget. The major component of this difference was attributable to unfavorable AUHS purchased services variances of $6 million. Also contributing to the overall unfavorable expense variance was patient care supplies, bad debts and salaries, wages and fees.

Considerable discussion occurred with respect to balance sheet accounts. Patient accounts receivable increased $24 million since June 30, 1997, primarily related to various medical records issues at AGH, and the accounting for the benefits of depreciation recapture at AUMC. Amounts due from affiliates decreased $23

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million from prior year end to a balance of $104 million as of December 31, 1997. Accounts payable and accrued expenses decreased $2.4 million since June 30, 1997, reflecting efforts to reduce AUH-West payables. Subsequent to December 31, 1997, the aging of trade payables has deteriorated substantially such that approximately $15 million of trade payables are over sixty days.

Significant time and emphasis were placed on the Statement of Cash Flows for the period. Operating activities required cash of $9 million, primarily because of the substantial increases in accounts receivable and the pay down of accounts payable during the first six months. Approximately $18 million of property, plant and equipment was acquired during the first six months, somewhat at a greater rate of acquisition than budgeted. Long term debt of approximately $9 million was paid off. Net transfers to affiliates of approximately $10 million, most of which went to AUMP, were unbudgeted and unplanned for. The above cash outflows of $46 million were met in part by a repayment of $23 million on the intercompany loans. The balance of the cash needs necessitated a draw down of funded depreciation.

Upon motion duly made and seconded, the Resource Management Committee approved the following resolution:

> **RESOLVED, that the Resource Management Committee of Allegheny General Hospital, Allegheny University Medical Centers and Allegheny University Medical Centers/Canonsburg accepts the Financial Statements for the Period Ended December 31, 1997, as presented; and instructs the Secretary to append a copy of the accepted Statements to the original minutes of this meeting.**

2. Outlook for Fiscal Year 1998

The Committee was clear in expressing its concern over the continued reduction in cash reserves, which lead to the following discussion focusing on cash projections for the balance of the fiscal year.

Because operations are expected to improve the last six months of the year, it is anticipated that there will be positive cash flow generated during the period January through June 1998 sufficient that the negative cash flow of $19 million experienced during the first six months of the year will be reduced to something closer to $15 million by the end of the year.

Noteworthy projected sources and uses of cash for the six months ended June 30, 1998, include positive cash flow provided by operating activities primarily the result of improved operations and the collection of a substantial portion of the prior increase in accounts receivable. Property, plant and equipment additions have been conservatively estimated at $13 million. There will also be repayment of additional long-term debt of $4 million and potential additional cash transfers

to affiliates of $12 million, again, a large portion potentially going to AUMP, although it was indicated this amount might, in the final analysis, be somewhat less.

It was assumed in compiling the Cash Flow Forecast for the balance of the fiscal year that accounts payable would be maintained at the December 31, 1997, level which, as previously indicated, has recently deteriorated. Also, it was assumed that there would be no further payments on the intercompany accounts for the balance of the year.

As previously noted, the Committee directed management to reduce accounts payable. Management was also asked to re-evaluate the capital needs and minimize capital investments over the remaining balance of the fiscal year as appropriate. It was further requested that AUH-West management work with AUMP management to minimize AUMP's need for operating subsidies.

Subsequent to the discussion of the Outlook for Fiscal Year 1998 it was decided to reconvene in late March or early April to further address the Outlook, address the outflow of cash requirements and intercompany transfers to affiliates.

3. Status of Intercompany Loans

Mr. Dionisio provided a brief overview on the Status of Intercompany Loans.

Mr. Sanzo had previously announced the inception of the AHERF Internal Loan Committee which consists of four external trustees and one internal Committee member. He also advised all transfers of funds between affiliates over $10 million be reviewed and approved by this committee. Any loans are to be repaid complete with interest, and the lending entity's CEO must preapprove such transfers. He further stated it was his strong recommendation AUH-West not make additional transfers to AUH-East until AUH-West could rebuild its own cash reserves.

After a lengthy discussion regarding intercompany loans and the creation of the Internal Loan Committee, the Resource Management Committee of AUH-West adopted a resolution requiring it be informed of any future intercompany advances.

Upon motion duly made and seconded, the Resource Management Committee approved the following resolution:

RESOLVED, that the Allegheny General Hospital, Allegheny University Medical Centers and Allegheny University Medical Centers/Canonsburg Resource Management Committee directs that the detail of any proposed loan between Allegheny Health, Education and Research

Foundation and affiliated corporations and AUH-West institutions, such detail to include the amount, the purpose, the repayment schedule and the interest rate of the contemplated loan, be provided to this Committee.

4. Allegheny University Medical Centers and Allegheny University Medical Centers/Canonsburg Disposition of Gifts - Real and Personal

Mr. Dionisio briefly reviewed the objective to facilitate the receipt and disposition of non-cash gifts. To that end, he explained the intent to allow management to dispose of stock, bonds and other negotiable securities as well as real estate and other non-cash gifts without seeking Board approval each time.

Upon motion duly made and seconded, the Resource Management Committee approved the following resolution:

WHEREAS, from time to time various individuals have indicated their interest in donating stocks, bonds, or other negotiable securities, as well as non-cash gifts of real estate, jewelry, paintings and other items; and

WHEREAS, brokers representing those individuals donating securities have indicated that there will be negative tax consequences for the donor unless the sale of such items is in the name of someone other than the donor; and

WHEREAS, Allegheny University Medical Centers (AUMC) and Allegheny University Medical Centers/Canonsburg (AUMC/C) wish to facilitate the receipt and disposition of non-cash gifts; and

WHEREAS, donated non-cash gifts of real estate, jewelry, paintings, etc. are converted to cash whenever possible.

NOW, THEREFORE, BE IT RESOLVED, that the Board of Trustees of AUMC and the Board of Directors of AUMC/C direct that any and all donated stocks, bonds or other negotiable securities and non-cash gifts, including but not limited to, jewelry, real estate, paintings, etc. donated to AUMC or AUMC/C, respectively, unless otherwise restricted by the donor, may be disposed of for cash when deemed appropriate by management; and

FURTHER RESOLVED, that the cash realized from the disposition of such gifts shall be utilized by management in a manner which is beneficial to the charitable purposes of AUMC or AUMC/C, is in accordance with the charitable intent of the donor, and is in compliance with any applicable policy or directive adopted by these Boards and;

FURTHER RESOLVED, that the incumbents of any of the positions listed are hereby authorized to approve such action or actions as may be necessary or desirable to sell, assign or transfer said non-cash gifts, or the proceeds of the sale thereof, and to approve the execution of any or all instruments necessary, proper, or desirable for the purpose of expediting the receipt and transfer of such non-cash gifts to cash:

Chairman
Vice Chairman
President and Chief Executive Officer
Treasurer or Assistant Treasurer
Secretary or Assistant Secretary; and

FURTHER RESOLVED, that the Secretary or Assistant Secretary is hereby authorized to provide a list of the names of the current incumbents of these positions to any transfer agent, broker, brokerage house or other entity or individual as is deemed necessary to accomplish the intent of this resolution; and

FURTHER RESOLVED, that the Boards hereby direct that the transfer to cash non-cash gifts shall be implemented by the Allegheny Health Education and Research Foundation Treasury Department; and

FURTHER RESOLVED, that management is directed to report annually to the Board of Trustees of AUMC or the Board of Directors of AUMC/C on the receipt and disposition of all non-cash gifts.

IV. Review of Maternal/Child Services

Mr. Sanzo highlighted components of the Maternal/Child Services Review. These are services in which there exists a distinct market leader outside the Allegheny system. In the case of obstetrics/gynecology it is Magee Women's Hospital; in the case of pediatrics, it is Children's Hospital of Pittsburgh. Allegheny University Hospitals are second in position to both services, respectively.

The Allegheny University Hospitals which offer obstetrics services include Allegheny General Hospital, Forbes Regional and Allegheny Valley. The combined subsidy for obstetrics services for fiscal year 1997 was $6 million. Although no Allegheny University Hospital is generating income from said services, the community hospitals are more efficient in providing obstetrics services than is AGH. Of the factors influencing income, rate of payment is the most important. These payment rates have been low given current market competition. Most notably, AGH is paid 60% of the Medicaid rate for obstetrics care, Forbes Regional is paid 73% of the Medicaid rate and Allegheny Valley is paid 86% of the Medicaid rate.

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Management recommends a number of strategies be implemented to increase market share by adding cases over the next three years. Supporting this recommendation is the important role obstetrics plays within the overall spectrum of hospital care. It is the single largest reason people are admitted. It is management's and the medical staff leadership's belief that degradation in obstetrics care or its elimination would have a negative impact on general surgery, general medicine and other core programs at the hospitals, but further recognize that growth cannot continue to increase subsidies. Therefore, it is proposed that it increase market share while reducing principal costs by 12% at AGH and 4% at the community hospitals.

Annual subsidies for pediatrics services approximated $5.5 million in fiscal year 1997. Management understands the need to significantly reduce the subsidy for pediatric services and recommends the most productive way of accomplishing this is to collaborate with one of the other existing pediatric services offered by either Children's Hospital of Pittsburgh, Mercy Hospital or West Penn Hospital. Because of Children's market dominance, it is further recommended that we work diligently, confidentially and expeditiously with representatives from Children's to determine if the interest in collaboration is mutual. In the event this collaboration does not occur, we will work with Mercy and West Penn to rationalize investments and provide services at a lower cost.

V. <u>Written Reports Submitted for Information</u>

A. Hospital Network Development
B. AUH-West Investment Report
C. Government Audits of Physicians at Teaching Hospitals
D. Review of Cash Disbursements
E. AUH-West Human Resources Report
F. AUH-West Proposed Calendar of Discussion Items for Resource Management Committee Meetings

VI. Adjournment

There being no further business, the meeting was adjourned at 11:55 a.m.

Respectfully submitted,

Cherry S. White
Secretary

/cem

Noted Attachments: Notice of Meeting
AUH-West Financial Statements for the Period Ended December 31, 1997

CEM|P:\WP\RMC\AUHWMIN.210

TAB 223

IN THE UNITED STATES DISTRICT COURT FOR THE
EASTERN DISTRICT OF PENNSYLVANIA

- - - -

SECURITIES AND EXCHANGE COMMISSION,	)	
Plaintiff,	)	
-vs-	)	Civil Action No. 01-CV-3898
WILLIAM F. BUETTNER, MARK D. KIRSTEIN, and AMY S. FRAZIER,	)	
Defendants.	)	

- - - -

VIDEOTAPE DEPOSITION OF: DAN CANCELMI

- - - -

DATE: February 5, 2003
Wednesday, 9:37 a.m.

LOCATION: BUCHANAN INGERSOLL
One Oxford Centre,
20th Floor
301 Grant Street
Pittsburgh, PA 15219-1410
412-562-8800

TAKEN BY: Defendant

REPORTED BY: Claire Gross, CRR, RDR
Notary Public

VIDEOTAPE DEPOSITION OF DAN CANCELMI,

My memory was it was some type of healthcare consulting group, and that he was going to eventually migrate over and work in there full time.
Q. Do you recall that was a movement over to the healthcare regulatory group? Does that sound consistent?
A. Yes.
Q. So Mr. Kirstein had discussed that with you during '97 that he was moving over to the healthcare group?
A. I think so. I remember that issue. I can't say 100 percent if it's certainly Mark told me about it. Maybe somebody else told me about it, but I was aware of that.
Q. Now, I think you've testified to this. You're familiar with people referring to an Eastern and a Western Region of AHERF; isn't that correct?
A. Yes.
Q. After '96 the Eastern entities included what was known as the Delaware Valley Obligated Group; correct?
A. Yes.
Q. And the Eastern Region was also referred to

sometimes as the Delaware Valley; is that correct?
A. Yes.
Q. And once the Graduate Hospitals were acquired they became part of the Eastern Region of AHERF; right?
A. They were physically located in the Eastern Region of the State of Pennsylvania, and then there was obviously some facilities and physician practices in New Jersey.
From a legal standpoint, from a legal structured standpoint, I don't remember them ever being all under the same legal corporate umbrella.
Q I didn't ask you whether they were part of a legal structure. I just asked you whether they considered within AHERF to be part of the Eastern Region. They weren't considered, for instance, to be part of the Pittsburgh region?
MS. COLLIERS: Objection to form.
A No.
Q. They were considered to be part of the Eastern Region?
A. Yes.

Q. And referred to in that sense being among the Eastern entities?
A. Yes.
MS. COLLIERS: Objection.
Q. The eastern entities were sometimes known as the Delaware Valley, so the Graduate Hospitals would be considered part of the Delaware as well?
MS. COLLIERS: Objection.
A. Yes.
Q. Correct?
A. Geographically, yes.
Q. And do you remember at some point there were discussions at AHERF about consolidating DVOG -- you know what I mean by DVOG --
A. Yes.
Q. -- and the Graduate Hospitals into a legal entity?
A. I remember there was discussions about that. There was also discussions about that on the Pittsburgh side. Like I think I testified earlier, I thought -- my recollection was the conversation or the communications or the considerations of that was more further along on the Pittsburgh side, but I couldn't -- I

can't say that for 100 percent sure. It just seemed to be my sense of it. But, yes, there were discussions.
Q. About consolidating DVOG and the Graduate Hospitals?
A. Yes.
Q. Into a legal entity?
MS. COLLIERS: Objection to form.
A. I don't know if it would have been a legal entity. It was more of a reporting type of a format maybe so maybe try to streamline some administrative functions of the Allegheny system.
Q. But as far as you know, it also could have been that it was being discussed to consolidate them into a legal entity; correct?
MS. COLLIERS: Objection.
A It could have been.
Q. Now, to save a little time, I want to mark some exhibits as D-1 through D-7. That's how we are going to refer to ours.

(Exhibits D-1 through D-7 marked for identification.)

Q. I'm going to hand them to you one at a time. These are all transcripts, Mr. Cancelmi, just so you know. I think you've seen them just with different stickers.
Now, Mr. Cancelmi, on January 23, 2003 do you recall being asked questions by Richard Whitney, a lawyer for the Unsecured Creditors Committee of AHERF?
A. Yes.
Q. You were testifying under oath that day; correct --
A. Yes.
Q. -- as you have many times before now?
A. Yes.
Q. Now, I'd like to turn your attention toward D-2, which is the transcript of January 23, 2003. If you go to page 200 and line 7, I'm going to read you some of the questions and answers; okay?
A. Okay.
Q. "Question: Okay. Do you remember discussing with Mark Kirstein the subject of the $50 million reserves under circumstances where he said he would take it back to people at Coopers?

MS. COLLIERS: Counsel --
MR. PERSCHETZ: That's not what I have on that page on D-2.
MS. COLLIERS: That's not what I have on D-2 either.
MR. TYCKO: I do.
MR. ZABEL: It's the January 23 transcript.
MR. PERSCHETZ: Page 200. Sorry.
MS. COLLIERS: I'm sorry. June 28?
MR. ZABEL: 23rd.
MS. COLLIERS: My page -- my 200 there isn't a question.
MR. DeLEO: Like mine.
MR. ZABEL: Page number is right at the bottom. It's a strange numbering system.
MR. PERSCHETZ: That's what confused my
MS. COLLIERS: Okay.
MR. ZABEL: You have it?
MS. COLLIERS: Yes.
MR. ZABEL: Everyone has a correct transcript?
BY MR. ZABEL:
Q. I'm going to start over, I think,

Mr. Cancelmi.
A. Okay.
Q. On page 200, line 7, the question put to you by Mr. Whitney:
"Question: Okay, do you remember discussing with Mark Kirstein the subject of the 50 million reserves under circumstances where he said he would take it back to people at Koppers?
"Answer: I really don't remember that.
"Question: All right. You don't remember any conversation which Kirstein would have said I'll take that up, I'll run it up the flagpole?
"Answer: No. I really don't remember. I think they are referring to that luncheon at Tambellini's, and my recollection -- I mean, this is my recollection. Whether it's right or not, I don't remember us going to that lunch thinking, hey, we got this brainstorm of an idea, we'll run it by Mark and then see if he thinks it's okay, and then he'll run it by Buettner. I just -- that wasn't my

recollection of it.
"Question: If Adamczak's recollection is different -- and I don't know if it is or it isn't, but if Adamczak's recollection is essentially as stated in these notes, would you dispute that?
"Answer: Yes. I mean that just -- I don't remember it being like that. I just don't remember me around Al going to a lunch meeting like that thinking, hey, we'll try this out on Kirstein and, if he buys off on it, hopefully he'll take it up to Buettner. I mean, that's not what I remember.
Now, that testimony is truthful and accurate; correct?
A. Yes.
Q. You don't remember raising the $50 million reserve transfer issue with Mark Kirstein at Tambellini's, do you?
MS. COLLIERS: Objection to form.
A. I don't remember that.

(Exhibit D-8 marked for identification.)

Q. You can put the transcript aside for now.

Mr. Cancelmi, I'm handing you what has been marked as Exhibit D-8. Do you recognize that; correct?
A. Yes.
Q. As you testified, this is a resume? D-8 is a resume you created; right?
A. Yes.
Q. You created it at the request of the SEC that was relayed through your lawyer; correct?
A. Yes.
Q. You created it, in fact, as you testified the day before, your testimony approximately a week before?
A. Yes.
MR. TYCKO: Just so the record is clear, the SEC did not ask me to ask Dan to create a resume. I was asked by Cathy Pappas if we could provide a resume on the assumption that would streamline the deposition, and as a result of that Dan created the resume.
Q. You created the resume the day before your testimony?
A. Yes. I think it was the day before.
Q. And you didn't have a resume available to

provide to the SEC at that time?
A. I probably could have found one. I mean, I've had a number of different resumes through the years, like most people do.
Q. But you weren't able to find one so you created a new one?
MS. COLLIERS: Objection to form.
A. I had one. The address needed to be changed. This needed to be updated.
Q. Did you have the resume on a computer?
A. Yes.
Q. I want to show you what's been marked as Exhibit D-8-A.

(Exhibit D-8-A marked for identification.)

Q. Now, you recognize that as another resume of yours, don't you, Mr. Cancelmi?
MS. COLLIERS: Objection.
A. Yes.
Q. And you used D-8-A to create, to work off of to create D-8; didn't you?
MS. COLLIERS: Objection.
A. I don't think so. I've had a number of different versions of resumes through the

years.
Q. Well, let's look at both resumes, D-7 and D-8-A. Both of them bring up to the time if you look at the top of your employment at the Tenet Health System or Tenet Healthcare Corporation; correct?
A. Yes.
Q. Now, Exhibit D-8 includes your position from September '99 to the present as vice-president assistant controller at Tenet Healthcare Corporation; right?
A. Yes.
Q. D-8-A does not have that position at the type; isn't that right?
A. That's correct.
Q. That's because D-8-A was created before September 1999 when you got that position?
A. I believe so.
Q. Well, you wouldn't have left that position off of it, would you?
A. No.
Q. Now, D-8-A was created, sometime, though after November of '98? You would agree with me, wouldn't you, because it lists your position from November '98 to present?

A. Yes.
MS. COLLIERS: Objection to form.
Q. That's where it lists you as a chief financial officer of Hahnemann University Hospital; right?
A. Yes.
Q. When was D-8-A created?
A. I have no idea.
Q. Did you produce D-8-A to the SEC?
A. I don't know if I did or not.
Q. Well, you've produced a lot of documents to the SEC; correct?
A. Yes.
Q. You don't recall whether you produced this?
A. Offhand, no.
MS. COLLIERS: Objection.
Q. Now, D-8-A was created, though, you would agree with me, based on the date before there were any proceedings in this case?
MS. COLLIERS: Objection.
A. No, not necessarily.
MR. TYCKO: Before there were any proceedings in which case?
MR. ZABEL: In this AHERF matter, the SEC matter.